

# Washington State Auditor's Office

## GAAP versus Cash Reporting

The Washington State Auditor's Office in a letter dated July 5, 2007, gave the local governments the option of whether to report financial information using generally accepted accounting principles (GAAP) or cash basis as outlined in the Budgeting, Accounting, and Reporting System (BARS) manuals. This letter is available on our Web site, [www.sao.wa.gov](http://www.sao.wa.gov).

To assist entities in making the best choice for financial reporting a table has been provided that identifies the pros and cons of GAAP versus cash basis reporting. When making this choice, remember this change does not effect local governments that prepare GAAP financial statements due to the requirements of their state or federal oversight agencies.

### GAAP Reporting

#### Pros

- Promotes fiscal accountability and transparency in government which enhances protection to citizens (disclose liabilities, future difficulties, going concern, etc.)
- Allows users (auditors, the Legislature, citizens) better ability to evaluate governments' financial position
- Provides information on big picture of long-term financial conditions
- Provides more information regarding the government (component units, capital assets, risk management, pension, etc.)
- Allows the management better control due to use of a double-entry accounting system
- Overall debt issuance and interest costs may be less
- May meet grantor requirements
- Consistent with national financial reporting standards
- Provides opportunity for recognition of excellence in reporting (GFOA award)

#### Cons

- Possible increase in costs for financial audit costs, personnel, software, and time
- GASB accounting and reporting standards become complex
- More qualified staff required
- GASB reporting requirements change frequently
- More complex accounting system required

## Cash Basis Reporting

### Pros

- Financial reporting may be less costly (financial audit costs, personnel, time)
- Reporting requirements change less frequently
- Accounting and reporting is less complex and easier to understand
- Less training required for staff
- SAO reporting requirements no longer mixed for cash basis cities with large utilities (they may choose this option, but no longer required)

### Cons

- Short-term focus on financial position
- Less control over financial position since the governments do not report assets and liabilities
- Less monitoring and information for capital assets, including infrastructure
- No capital asset cost information (depreciation, amortization, etc.)
- No information about future financial obligations (OPEB and other commitments)
- Overall debt issuance cost may be higher
- May not meet bond or other reporting requirements
- Eventual conversion to GAAP more difficult in the future

If you have any questions, please call Christy Raske, Audit Manager for Local Government Support at (360) 725-5593.